

Message Text

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PAGE 01 SEOUL 09041 270138Z
ACTION EA-12

INFO OCT-01 ISO-00 EB-08 /021 W
-----033628 280004Z /23
R 270101Z OCT 77
FM AMEMBASSY SEOUL
TO USDOC WASHDC
INFO SECSTATE WASHDC 7190

UNCLAS SEOUL 9041

E.O. 11652: N/A
TAGS: BEXP, KS
SUBJ: POSSIBLE CHANGES IN INVESTMENT CLIMATE

REF: (A) USDOC 19501, (B) SEOUL 8672

1. EMBASSY CHECKED WITH TWO SEPARATE SOURCES IN ROKG REGARDING YOUR INFORMANT'S UNDERSTANDING THAT GOVERNMENT MAY BE PLANNING TO RELAX GUIDELINES, IN NEAR FUTURE, FOR FOREIGN INVESTMENTS AIMED AT INDIGENOUS MARKET.

2. NUTSHELL REPLY IS THAT SUCH MEASURES ARE CURRENTLY BEING DISCUSSED INFORMALLY AT WORKING LEVEL IN RESPONSIBLE MINISTRIES, BUT THAT FIRM POSITION HAS NOT YET BEEN TAKEN. EVEN IF FORMAL RECOMMENDATION IS MADE, IT IS PROBLEMATIC AT THIS POINT WHETHER POLICY-MAKERS WOULD APPROVE IT. IT WILL BE A MATTER OF MONTHS, AT LEAST, BEFORE WE ARE LIKELY TO HAVE A MORE DEFINITE PICTURE.

3. BY WAY OF BACKGROUND, DISCUSSION ALONG THESE LINES HAS BEEN PROMPTED BY GENERAL CONCERN OVER INFLATION, AND GENERAL MOVEMENT TOWARDS IMPORT LIBERALIZATION. ONE OF THE MEASURES RECENTLY TAKEN TO COUNTER DOMESTIC INFLATION (SEE REF B) HAS BEEN TO LIBERALIZE IMPORTS OF THOSE NON-LUXURY COMMODITIES WHOSE DOMESTIC PRICES ARE "UNREASONABLY HIGH" -- IE 50PCT ABOVE INTERNATIONAL MARKET PRICES. SOME HAVE SUGGESTED THAT NEXT LOGICA
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STEP MIGHT BE TO ALLOW MORE SCOPE FOR FOREIGN INVESTMENTS IN AMNUFACTURING SECTORS IN WHICH LOCAL PRODUCERS HAVE BECOME NON-COMPETITIVE, AS MEANS OF FORCING THEM TO BECOME MORE EFFICIENT. DISCUSLION OF SUCH A MEASURE HAS RANGED OVER CONSUMER PRODUCT AREAS AS WELL AS NON-LUXURY AREAS. AS DEPT AWARE, LOCALLY-MANUFACTURED COSMETICS ARE NOTORIOUSLY HIGH-PRICED BY INTERNATIONAL STANDARDS.

4. THESE DISCUSSIONS RECEIVED ADDITIONAL STIMULUS IN WAKE OF SERIES OF FOOD SCANDALS DURING LAST TWO WEEKS OF SEPTEMBER. LOCAL FOOD MANUFACTURERS WERE FOUND TO BE DISTRIBUTING ROTTEN OR INSECT-INFESTED FOOD, RESULTING IN DEATH OF AT LEAST ONE SCHOOLCHILD. IT WAS SUGGESTED BY SOME THAT LOCAL FOOD MANUFACTURERS MIGHT BENEFIT FROM COMPETITIVE EFFECT OF MORE FOREIGN INVESTMENT IN THIS FIELD, OR GREATER SCOPE FOR EXISTING FOREIGN INVESTORS TO SELL IN DOMESTIC-- AS OPPOSED TO EXPORT -- MARKET.

5. EVEN IF DISCUSSIONS MATERIALIZE INTO CONCRETE PROPOSAL TO RELAX FOREIGN INVESTMENT GUIDELINES, IT IS NOT CERTAIN THAT PROPOSAL WOULD BE APPROVED. FORCES OF PROTECTIONISM STILL SWING CONSIDERABLE WEIGHT IN KOREA, AND THERE IS STILL A STRONG RELUCTANCE IN ROKG TO ENCOURAGE EXPENDITURES ON UNNECESSARY CONSUMER GOODS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
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Disposition Approved on Date:
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Disposition Comment:
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
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Handling Restrictions: n/a
Image Path:
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Office: ACTION EA
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Original Handling Restrictions: n/a
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Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 SEOUL 8672
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 07-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 768432
Secure: OPEN
Status: NATIVE
Subject: POSSIBLE CHANGES IN INVESTMENT CLIMATE
TAGS: BEXP, KS
To: COM
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/aa650426-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009